

# **Making California's State Budget More User-Friendly and Transparent**

**Daniel J.B. Mitchell**

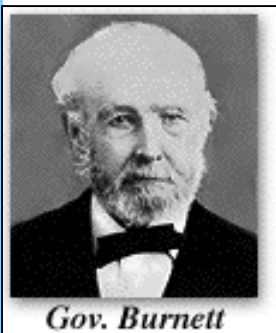


**Werner Z. Hirsch**



***ABFM Conference, Oct. 11, 2002, Kansas City***

*“When a State borrows money to construct some great and permanent improvement, and leaves future generations to pay the debt, she also leaves them the work itself, as some sort of compensation. The violation of principle consists in the PRESENT generation assuming to act for and to bind the next without their consent. But the case is still worse, when a State borrows money to defray the ordinary expenses of her civil administration; because she bequeaths a debt to posterity, without any means to pay it.”*



Gov. Burnett

**Peter Burnett**  
**1st Calif. Governor**

*“When I previously proposed to the Legislature that we should set something aside for unforeseen needs, some people said I was taking a defeatist attitude—that I should be thinking in terms of prosperity and not depression — but I am still of the opinion that it is no more defeatist for a State to provide for a possible rainy day than it is for an individual to do so. I am as optimistic as anyone about the economic future of our State, but I think it is elementary prudence to establish a rainy day fund.”*



**Earl Warren**  
**30th Calif. Governor**

**“Everybody is entitled  
to my opinion.”**

*Madonna*



**2/12/01: Hirsch and Mitchell,  
LA Times, op ed:**

*“As California’s electricity crisis unfolded, there was much talk about using the state’s “surplus” to fend off high energy costs. ... There is one problem... In the current fiscal year ending June 30, California is running a deficit. And the budget proposals for next fiscal year similarly project a deficit.”*



# 2/23/01: Tim Gage, State Director of Finance, LA Times, Letter to the Editor

*“The charge by (Hirsch and Mitchell) that California is running a deficit is flatly untrue.”*

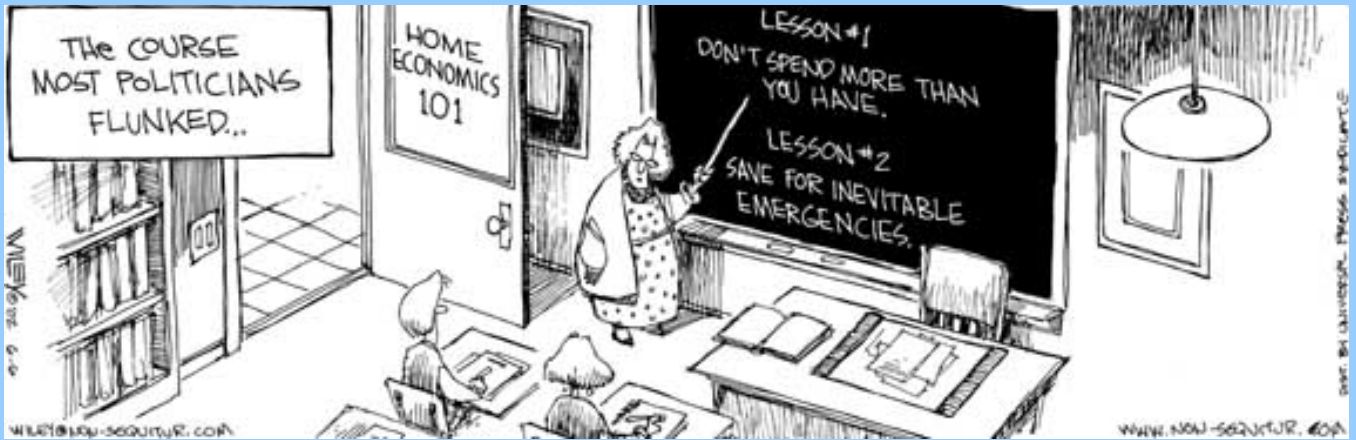


# 2/23/01: Tim Gage, State Director of Finance, LA Times, Letter to the Editor

*“The charge by (Hirsch and Mitchell) that California is running a deficit is flatly untrue.”*



**What, me worry?**



**Why does California  
feel exempt?**



# If California were a country, it would be the...

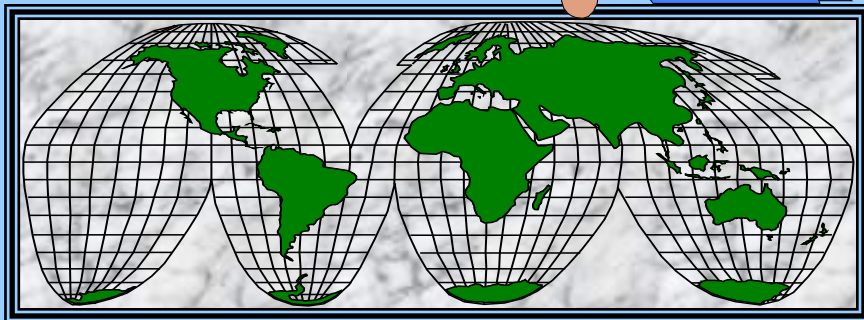
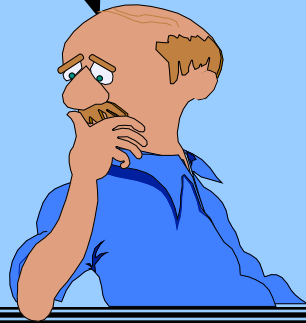
- 5th
- 6th
- 7th
- 8th



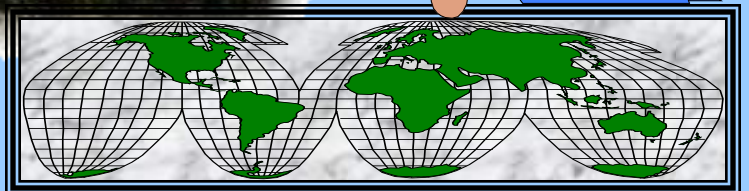
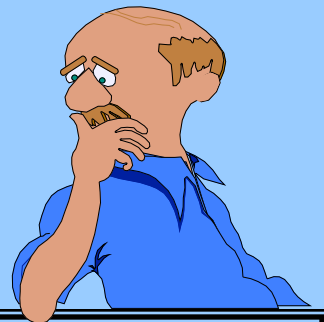
largest country in the world depending on the year chosen.

## What does this statement mean?

**What  
makes a  
country?**



# Having a government?

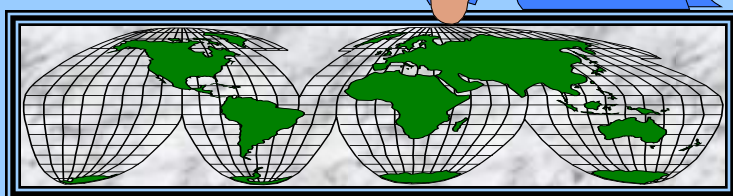
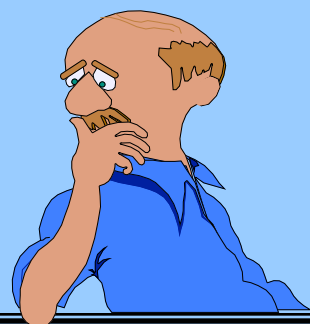


# Belonging to the UN?

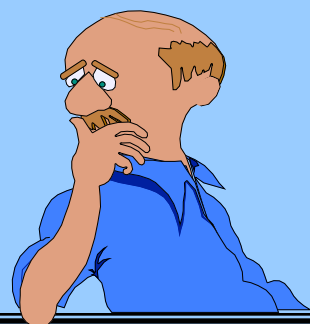


**Switzerland?**

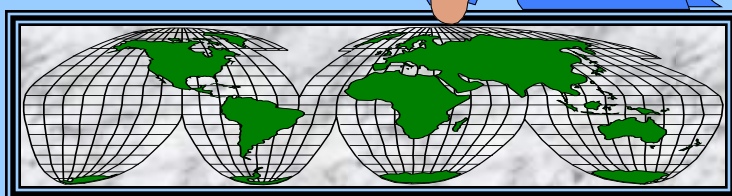
**Taiwan?**



# Having a post office and issuing stamps?



UN?





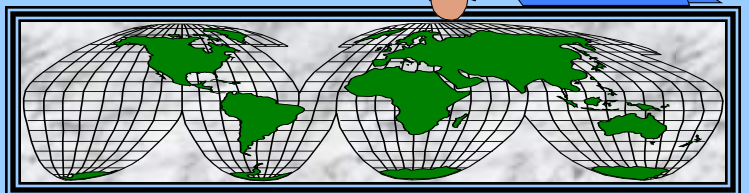
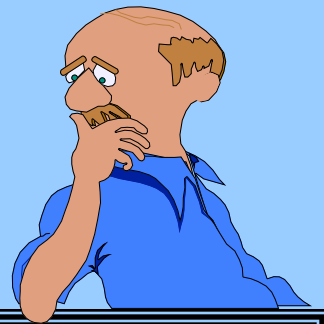
# Speaking a common language?



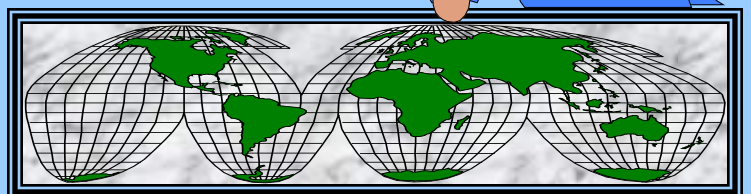
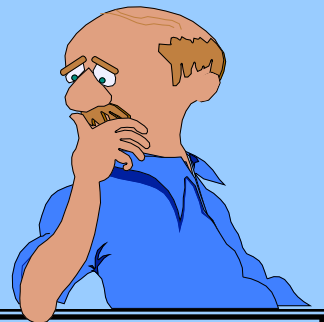
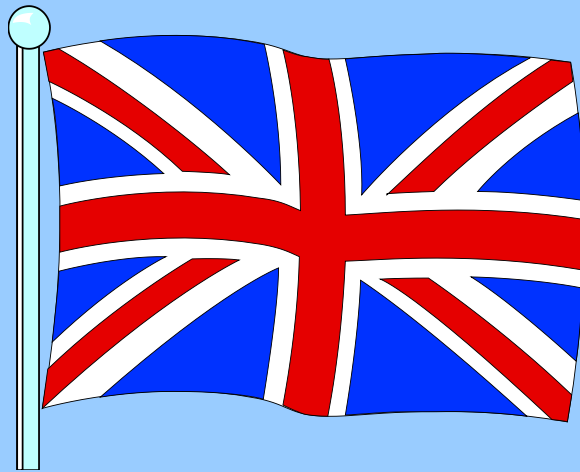
*The Tower of Babel  
by Pieter Bruegel (c. 1525-69)*

**Belgium?**

**India?**



# Having a flag?

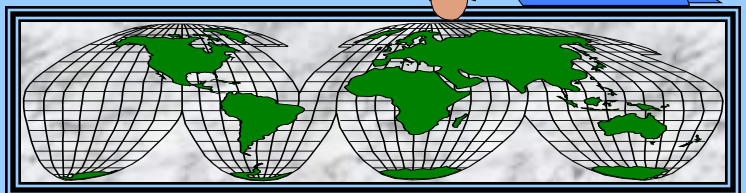
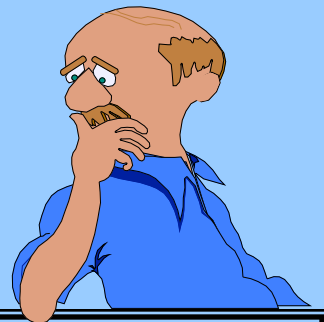


# Sovereignty?

**“I am the master of  
my fate;  
I am the captain of  
my soul.”**

**William Ernest Henley**

*Invictus*



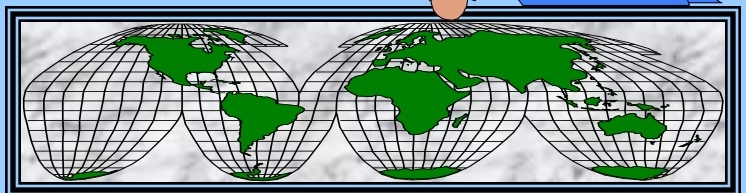
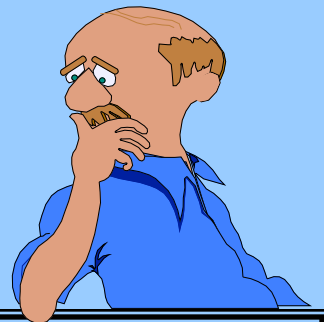


# Fiscal Sovereignty?

**“I am the master of  
my fate;  
I am the captain of  
my soul.”**

**William Ernest Henley**

*Invictus*



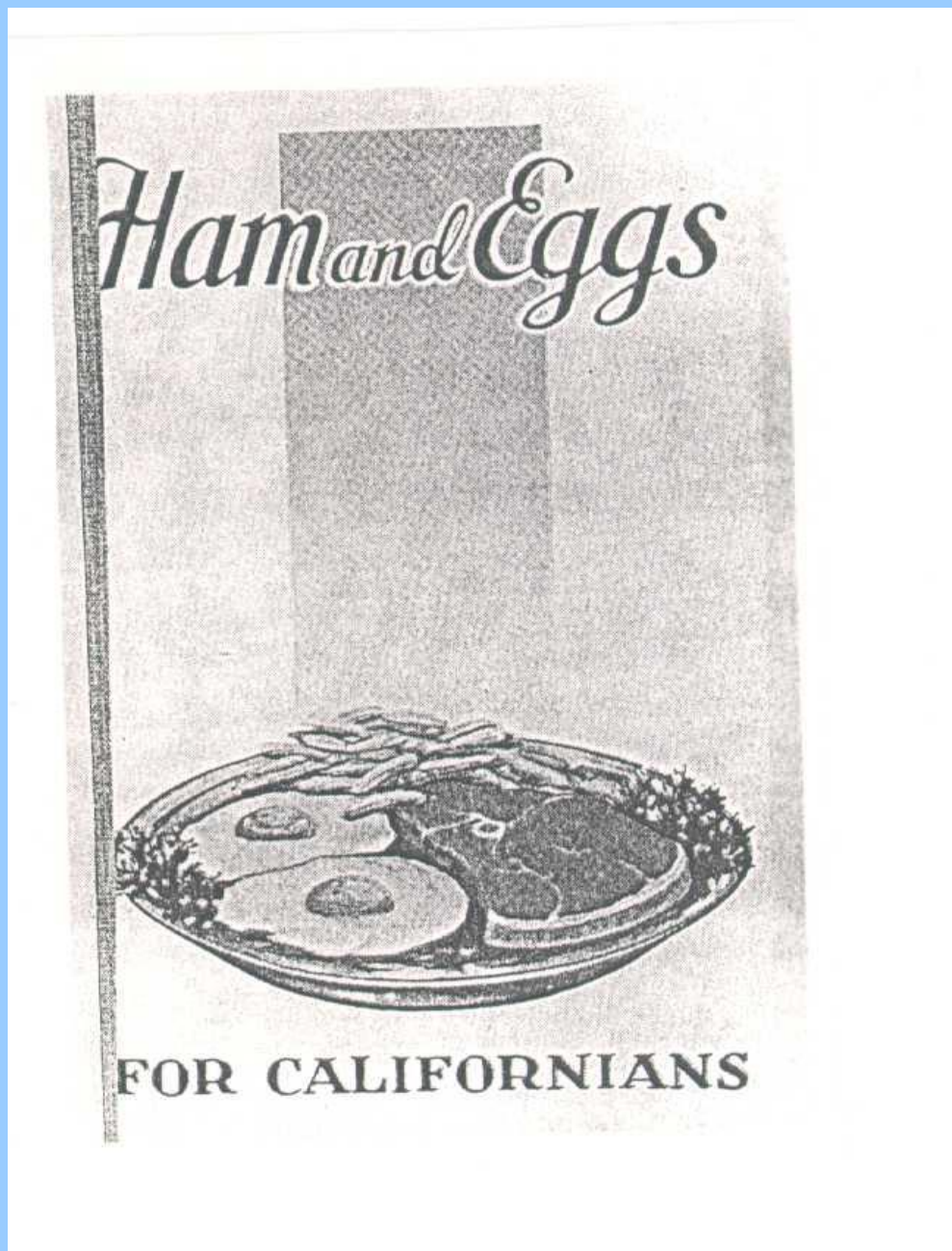
# *California has no Alan Greenspan*

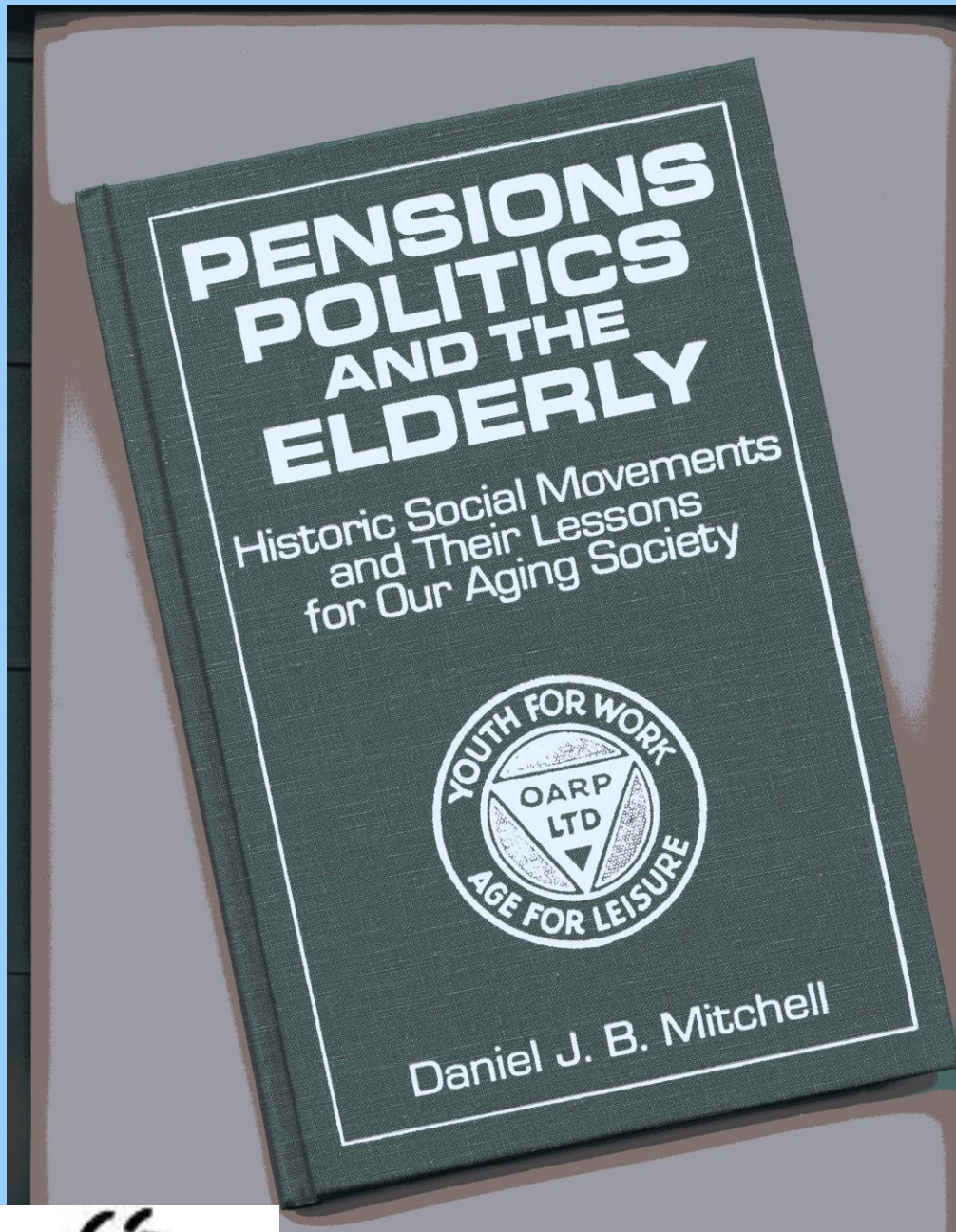
- **There is no  
California  
currency**



- **Its govt.  
can't run big  
deficits for  
long periods**

*Nonetheless...*





*Shameless plug:*

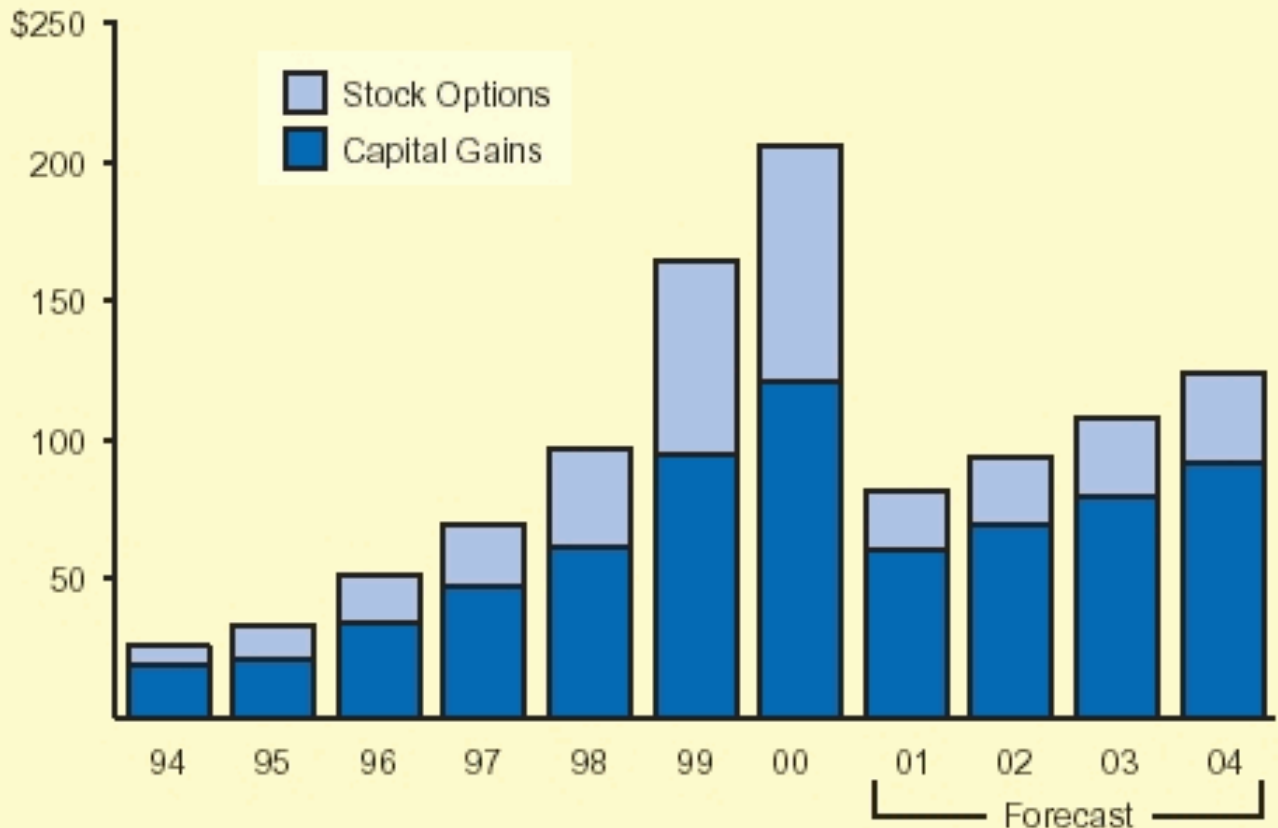
Available at  
[www.mesharpe.com](http://www.mesharpe.com)



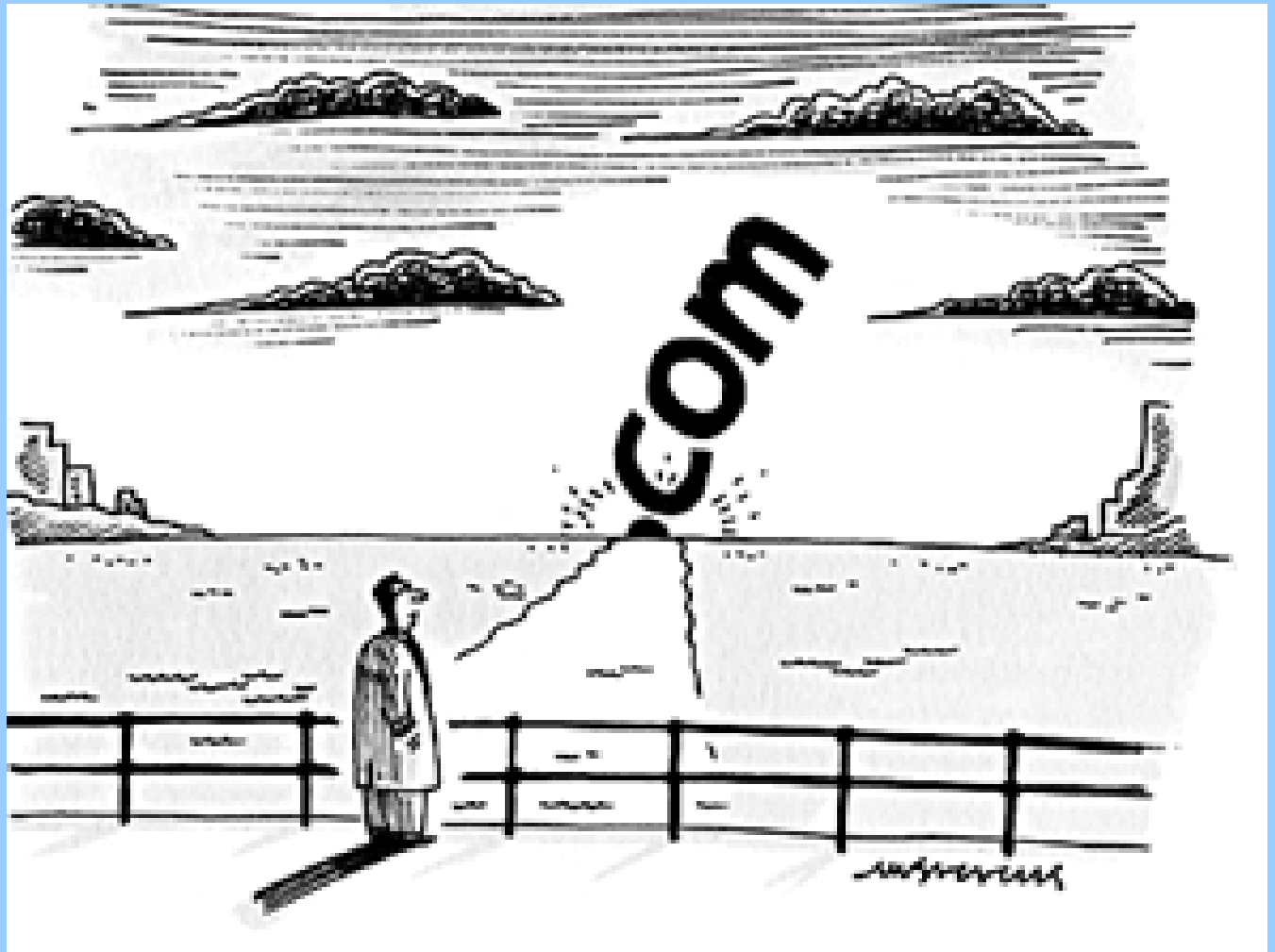
Figure 3

## Capital Gains and Stock Options Tumble in 2001

(In Billions)



**In FY 2000-01, personal income taxes produced \$17 billion in revenue from capital gains (22% of general fund revenue).**



***“That which cannot go  
on forever must come to  
an end.”***



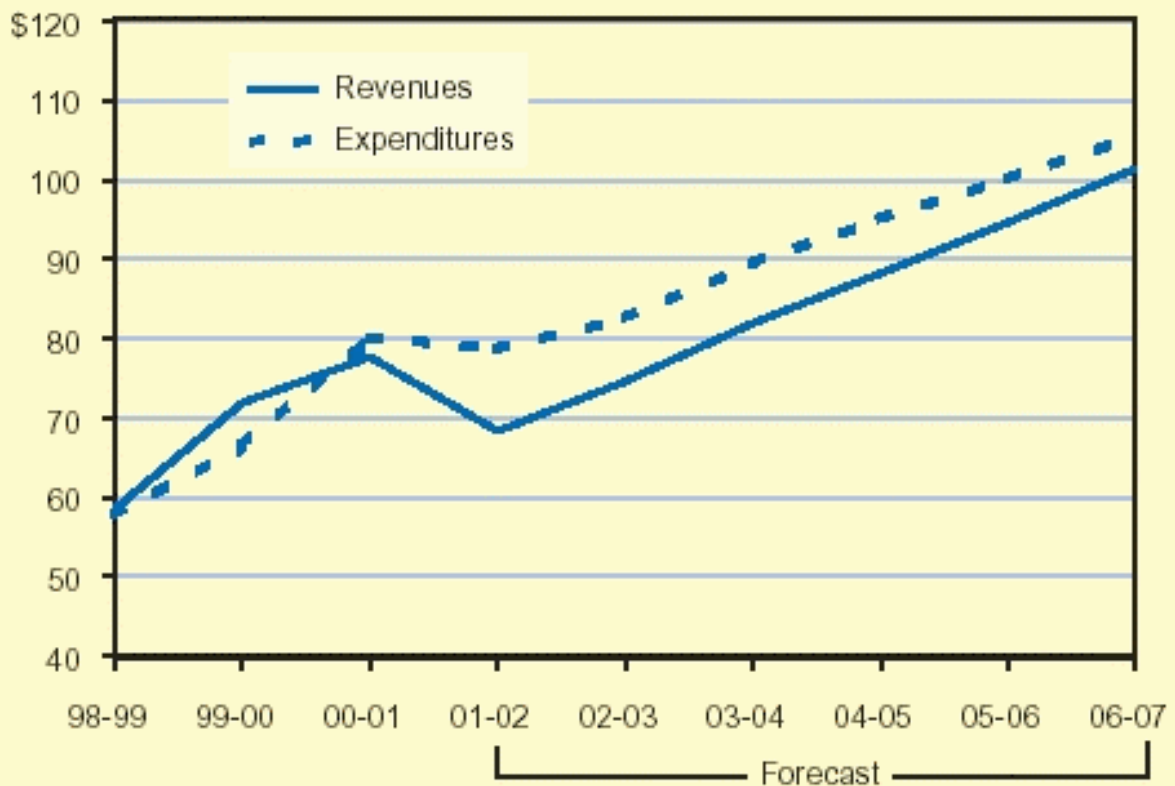
**Herb Stein**

# Structural Deficit

Figure 3

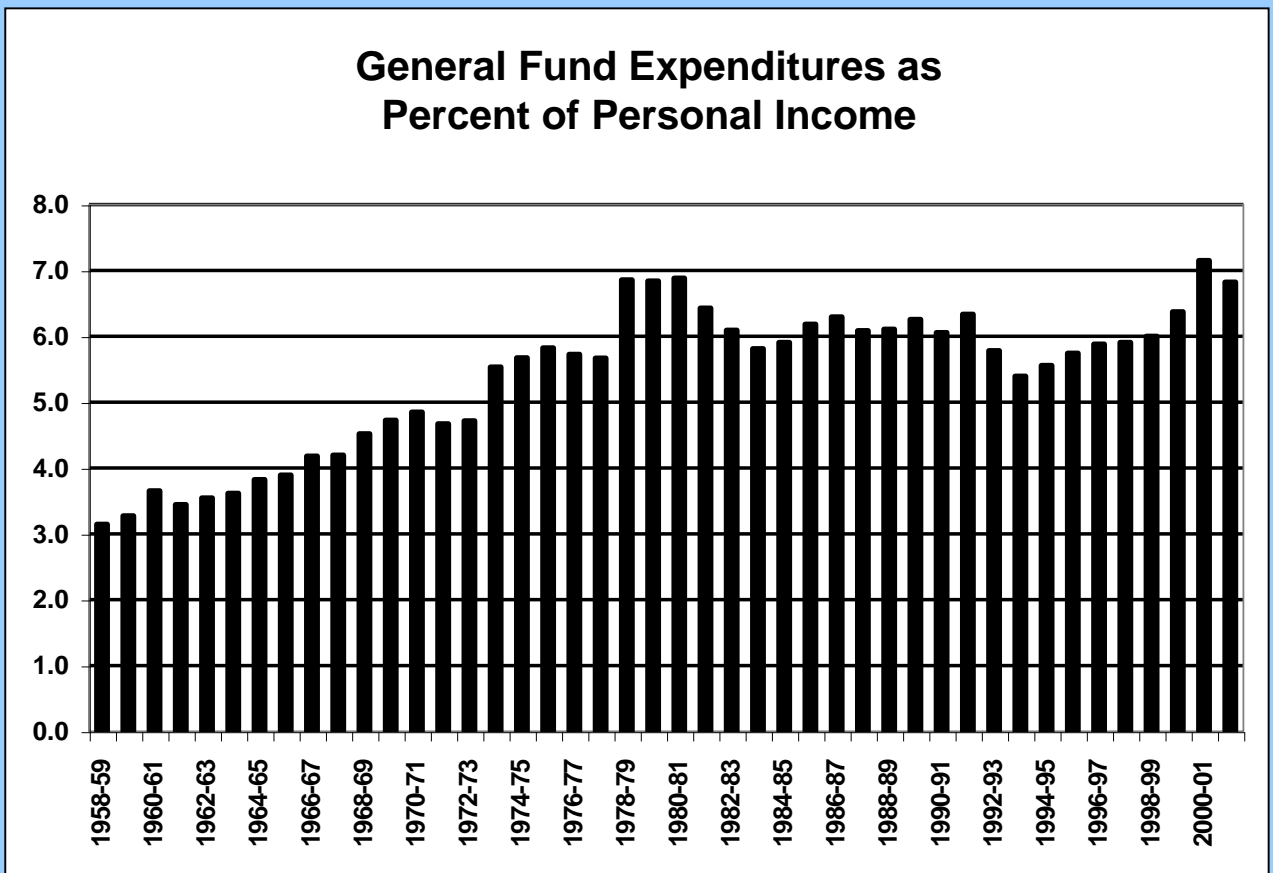
## Gap Between Revenues and Expenditures to Persist

*General Fund  
(In Billions)*



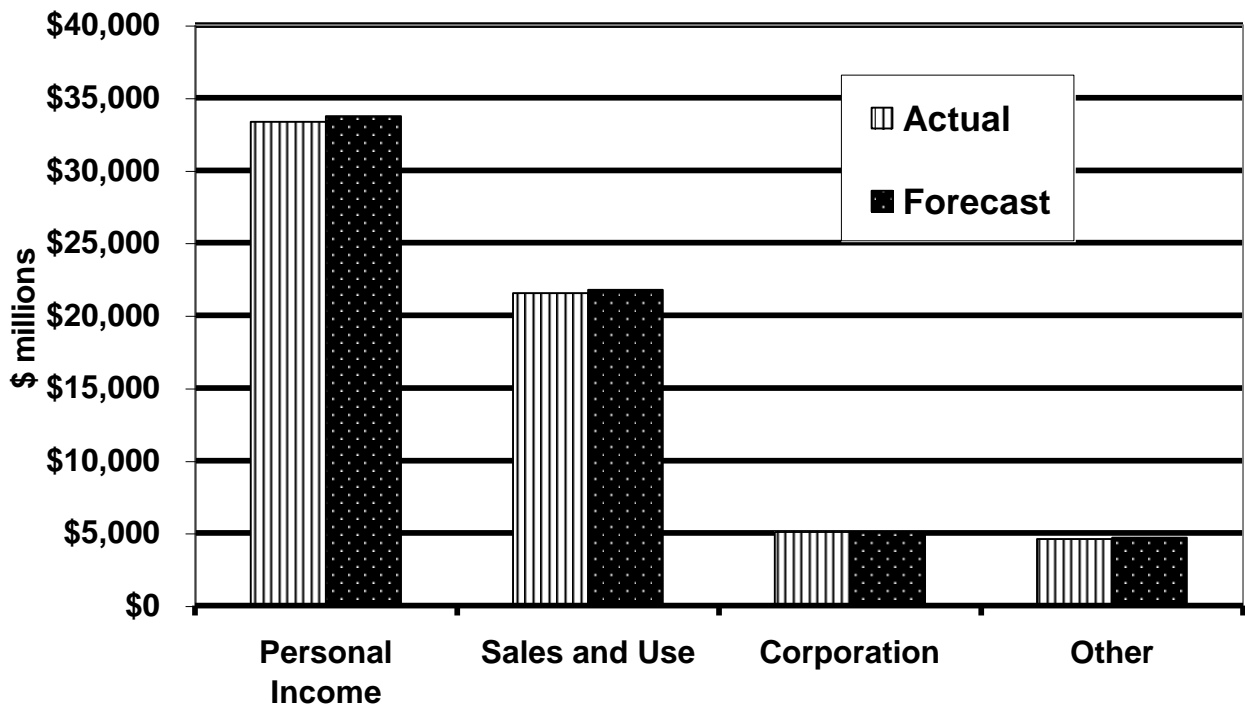


# Record Spending and Deficit at Peak Guarantees Budget Crisis in Downturn

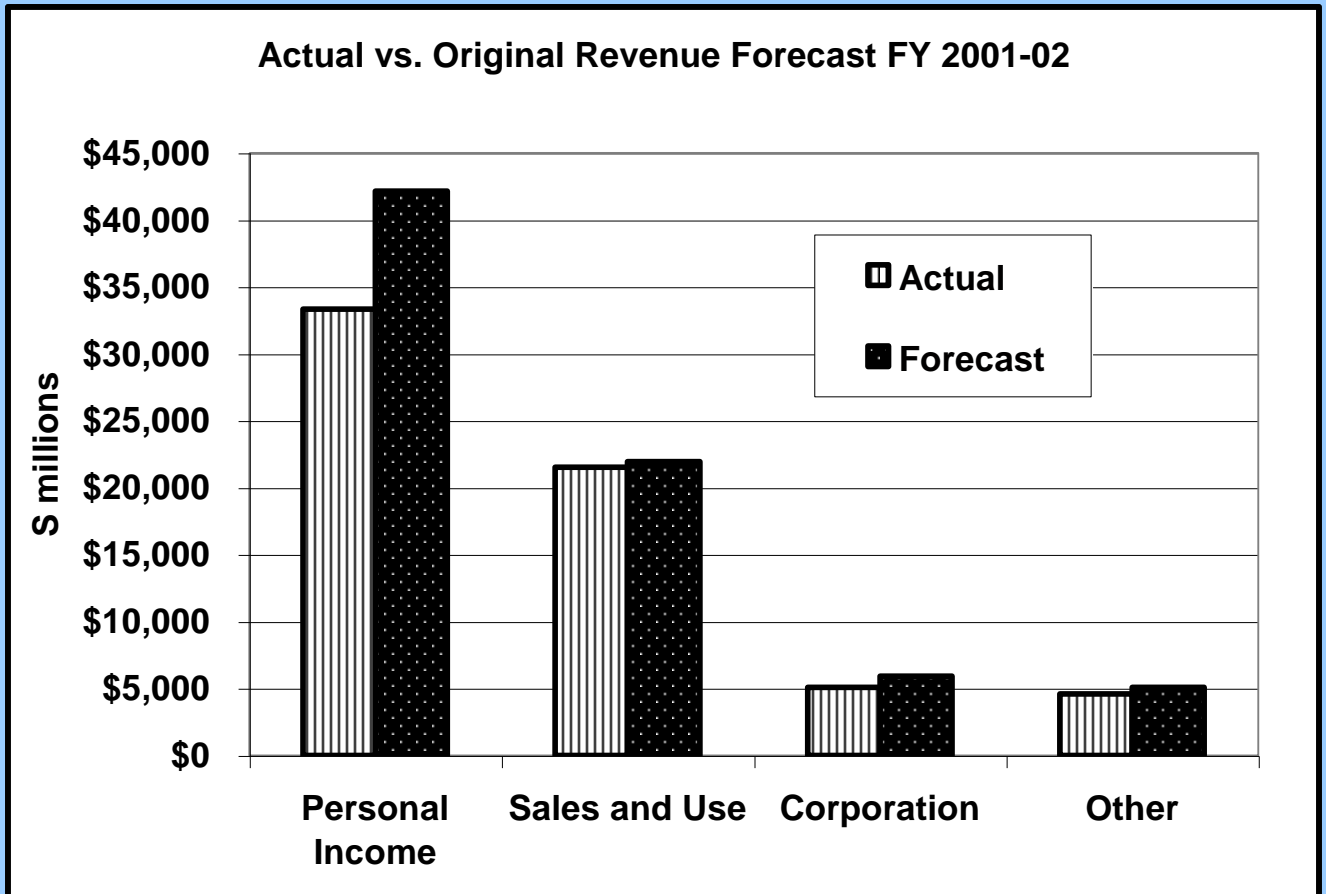


# Was the Drop in Revenue a Surprise?

Actual vs. Forecast Revenue for FY 2001-02 as Reported in  
DOF Monthly Bulletin 7/02



# Was the Drop in Revenue a Surprise?



# *Electricity Deregulation and Crisis*



# *Electricity Deregulation and Crisis*



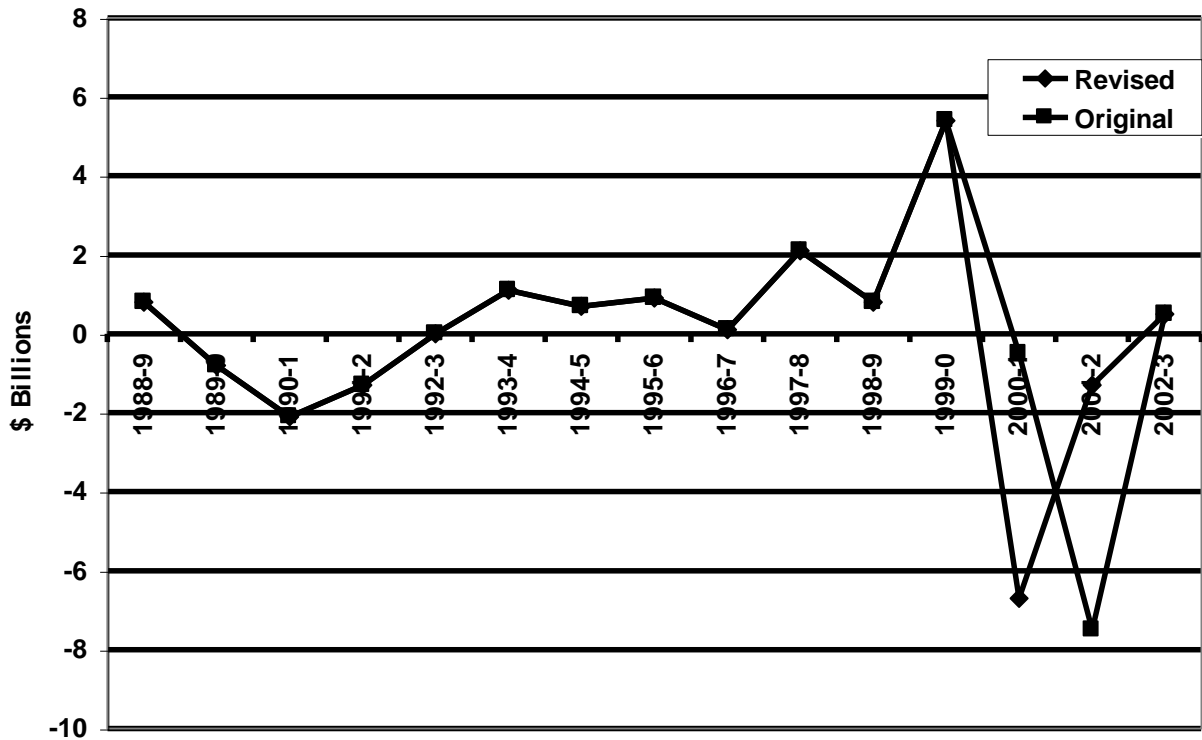
may



**Waiting for \$6+ billion**

# Inconsistent Accounting for Electricity Spending

General Fund Surplus or Deficit





Juggling the Numbers



FINANCIAL ACCOUNTING STANDARDS BOARD



Governmental Accounting Standards Board



THE CHRISTIAN SCIENCE MONITOR Bennett

Juggling the Numbers



# \$23.6 Billion



**544 Nexis-Lexis Citations:**  
**May 14 - Aug. 31, 2002**

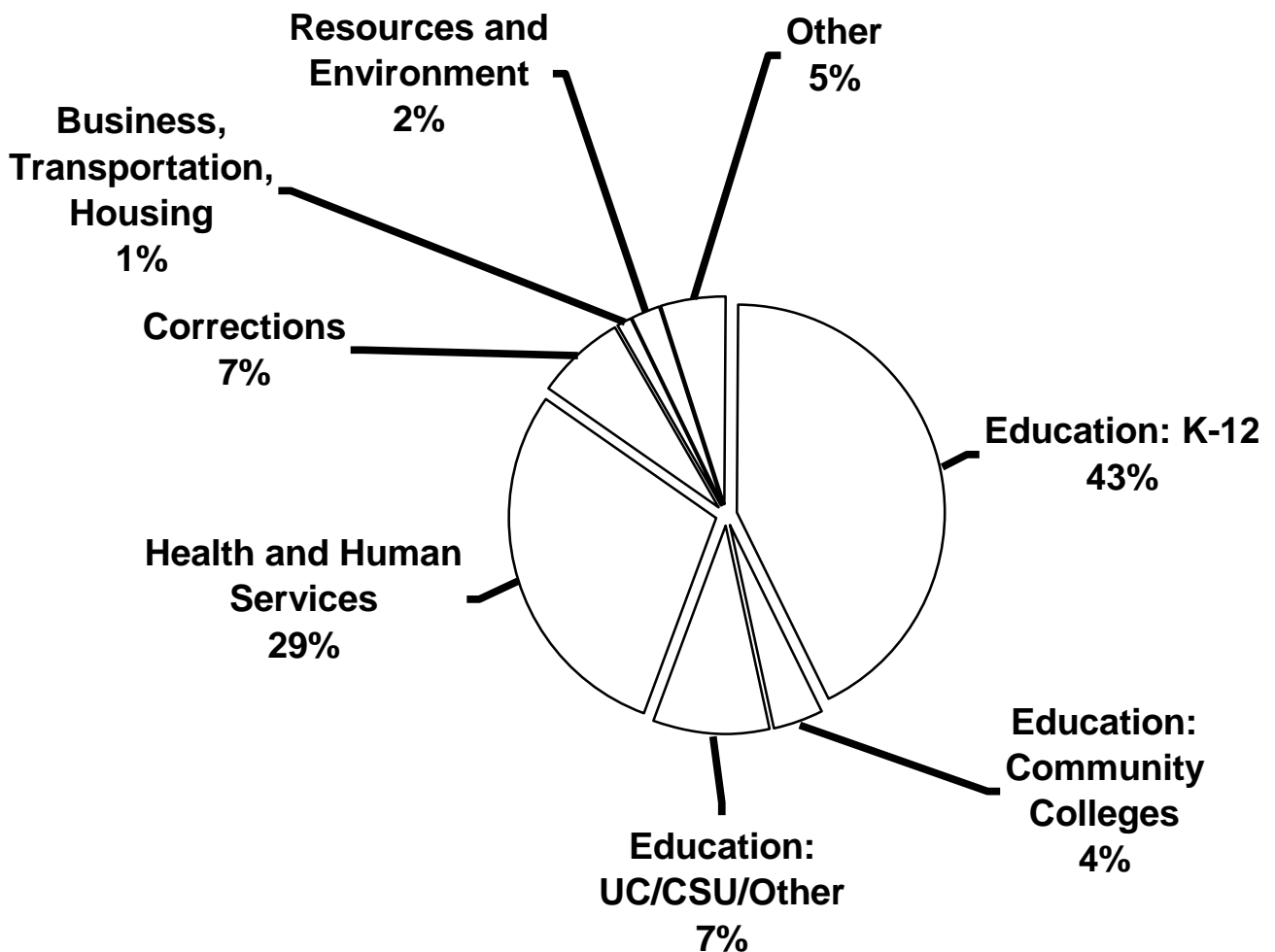
# \$23.6 Billion



## What Does It Mean?

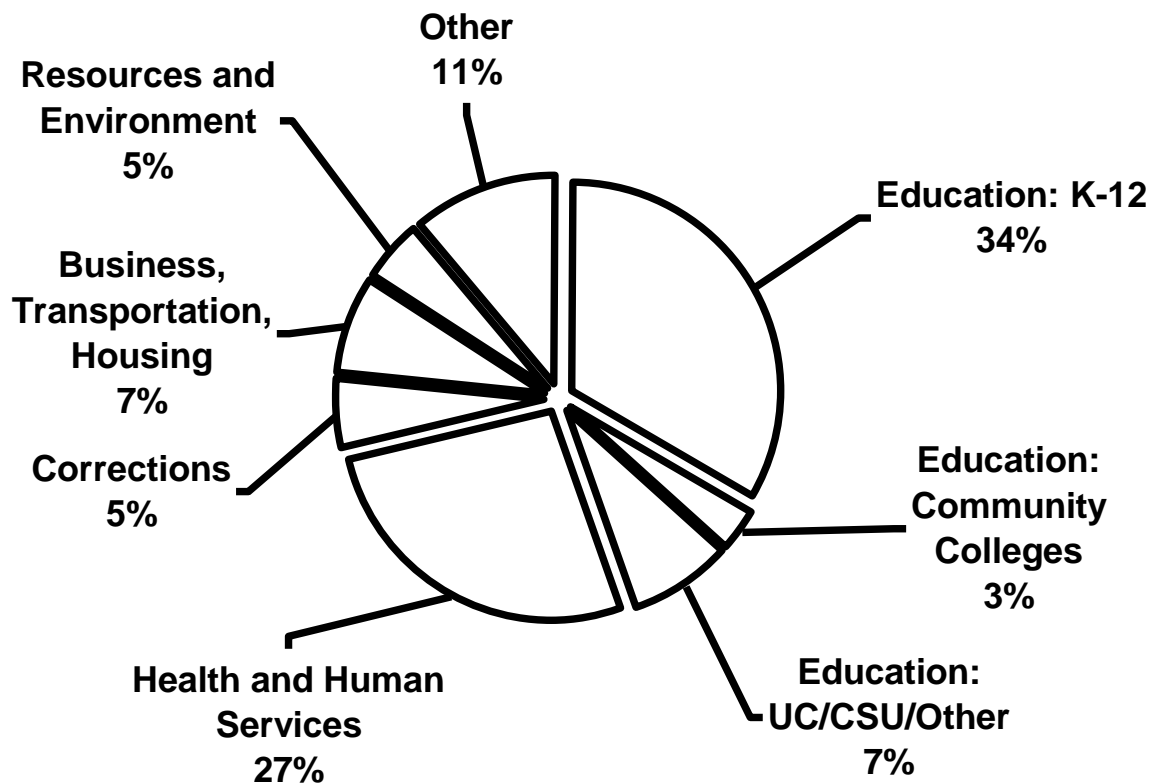
# *Budget Structure*

**Composition of General Fund Excluding Tax Relief:  
FY 2001-02**



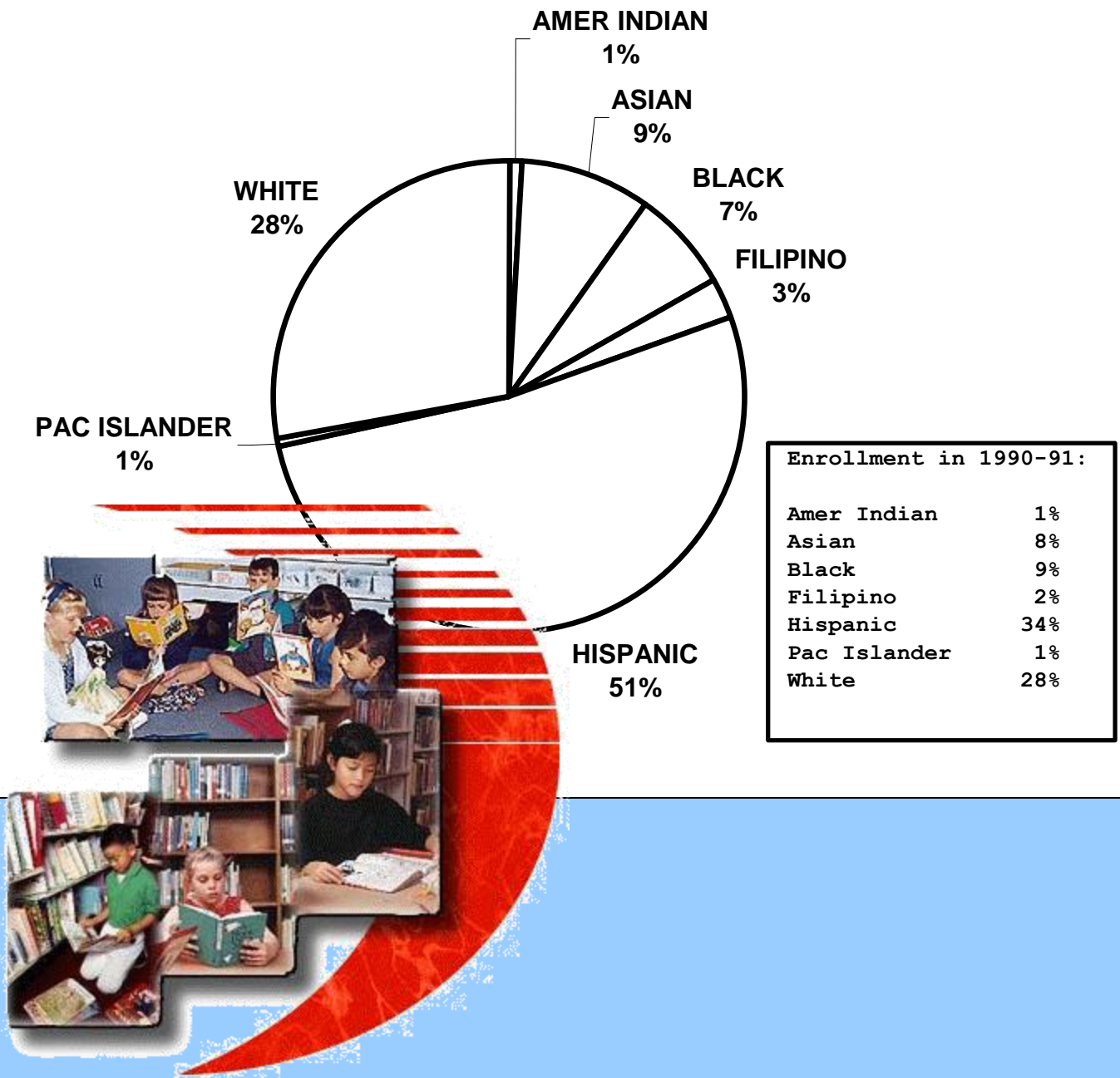
# ***Budget Structure***

## **Composition of Total Expenditures Excluding Tax Relief: FY 2001-02**



# *Changing Demographics*

K-12 Enrollment: 2010-11





**Table 2: General Fund  
Balance or Reserve as of  
June 30, 2002 as  
Estimated at Various  
Points in Time: \$billions**

**Initial Governor's  
Proposal for  
2001-02 Fiscal Year,  
January 2001                      \$3.138**



**Table 2: General Fund  
Balance or Reserve as of  
June 30, 2002 as  
Estimated at Various  
Points in Time: \$billions**

**Governor's Revised  
Proposal for  
2001-02 Fiscal Year,**

|                 |                |
|-----------------|----------------|
| <b>May 2001</b> | <b>\$1.811</b> |
|-----------------|----------------|



**Table 2: General Fund  
Balance or Reserve as of  
June 30, 2002 as  
Estimated at Various  
Points in Time: \$billions**

**Senate Proposal,  
June 2001                      \$3.240**

**Assembly Proposal,  
June 2001                      \$2.583**





**Table 2: General Fund  
Balance or Reserve as of  
June 30, 2002 as  
Estimated at Various  
Points in Time: \$billions**

**Conference**

**Version** **\$3.004**



**Table 2: General Fund  
Balance or Reserve as of  
June 30, 2002 as  
Estimated at Various  
Points in Time: \$billions**

**Governor's "Final"  
Budget,  
July 2001                      \$3.397**

**Legislative Analyst's  
Estimate,  
September 2001              \$3.397**



**Table 2: General Fund  
Balance or Reserve as of  
June 30, 2002 as  
Estimated at Various  
Points in Time: \$billions**

**Legislative Analyst's  
Estimate,  
November 2001      -\$3.718**

**Governor's Budget  
Proposal,  
January 2002      \$1.486**



**Table 2: General Fund  
Balance or Reserve as of  
June 30, 2002 as  
Estimated at Various  
Points in Time: \$billions**

**Governor's Revised Budget  
Proposal, May 2002**  
-\$0.123

**Legislative Proposal  
Awaiting Final Action,  
June 2002** \$0.113

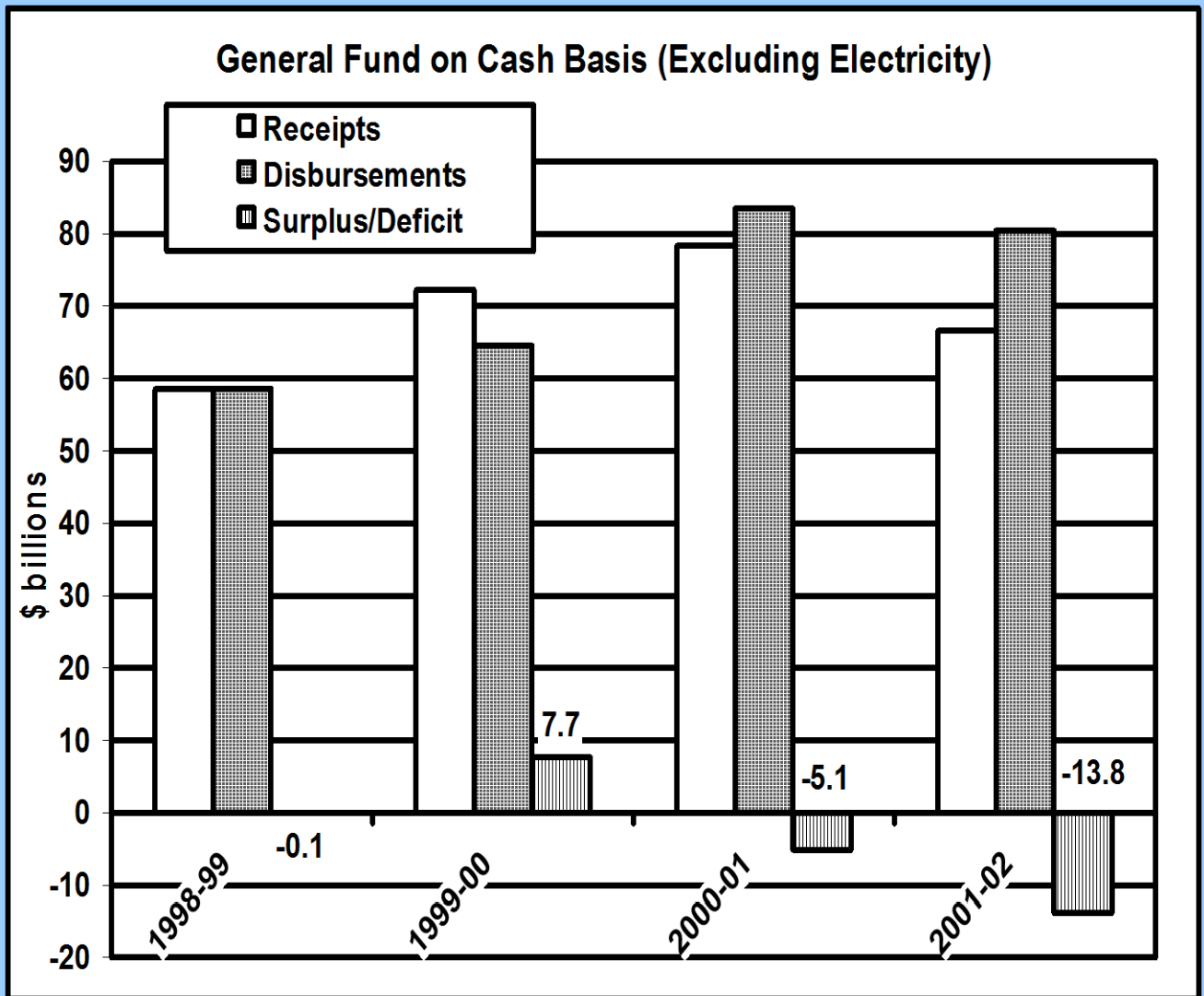


**Table 2: General Fund  
Balance or Reserve as of  
June 30, 2002 as  
Estimated at Various  
Points in Time: \$billions**

**Governor's "Final"  
Budget,  
September 2002     \$0.072**



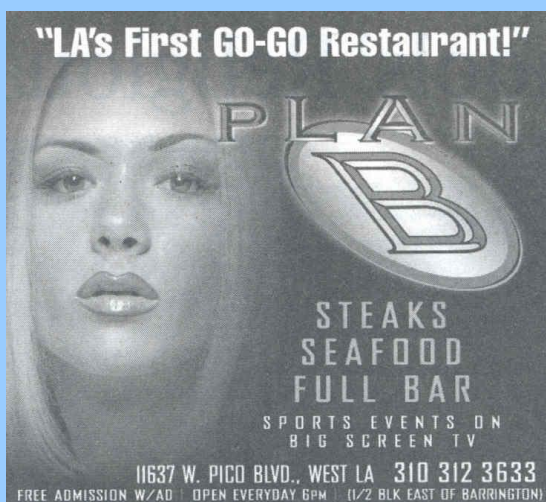
# ...all others pay cash.



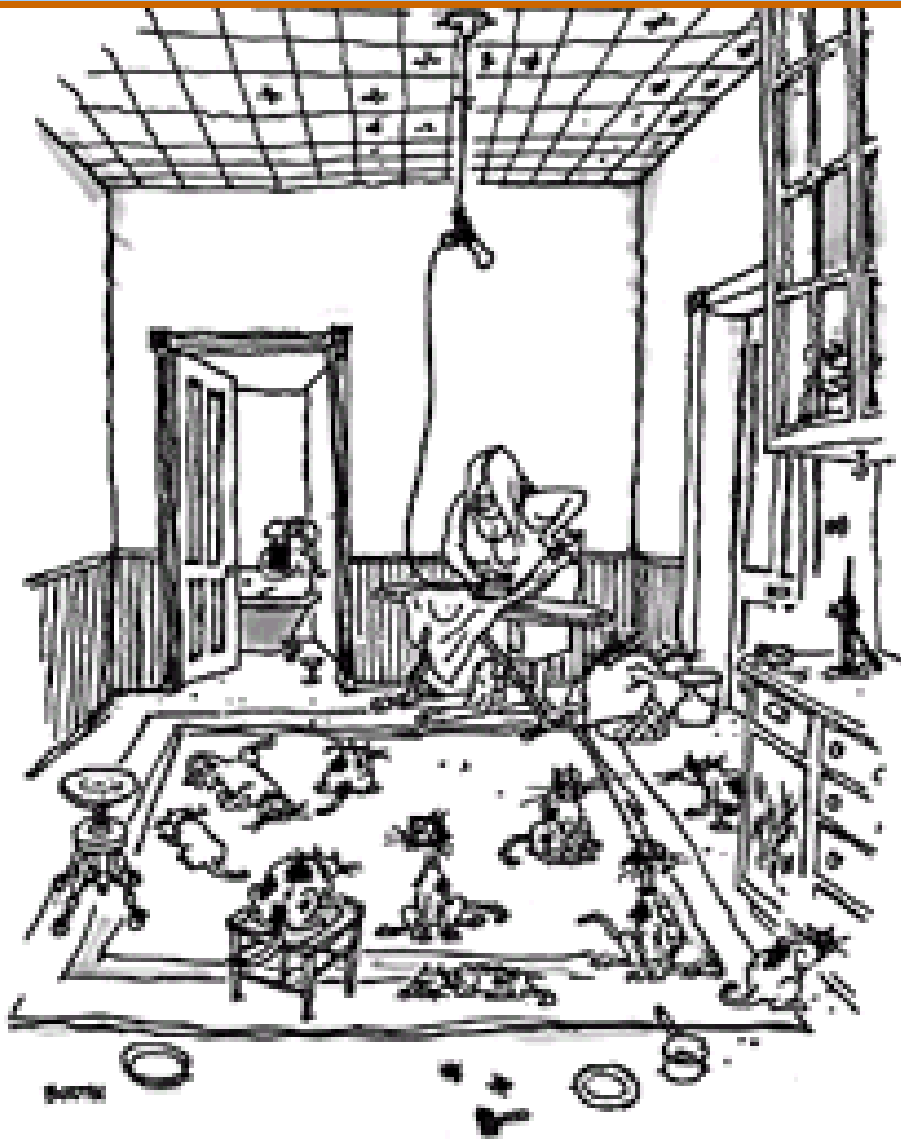




- **Absent responsible fiscal policy, funds for infrastructure, education, etc., will not be available for economic growth**
- **Need for transparency and user-friendliness**
- **Inconsistent accounting can undermine public trust**
- **Need to build up adequate reserves in Good Times**
- **Plan B**



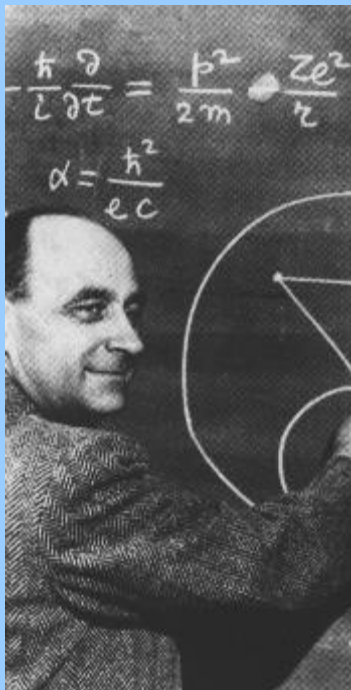




*“I’m working on Plan B.”*

**“Before I came here, I was confused about this subject. Now I am still confused, but at a higher level.”**

***Enrico Fermi***



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**Werner Z. Hirsch**



***ABFM Conference, Oct. 11, 2002, Kansas City***